

2 November 1955

EDIC WORKING GROUP ON COLLECTION REQUIREMENTS

Revision of Draft Foreign Service Reporting Instruction on Economic Relations with the Sino-Soviet Bloc (now ERC 34, proposed as a classified supplement to the Foreign Service Manual.)

CIA Comments and Suggestions

Section 220	No comment.
Section 221	Suggest change of "Soviet Bloc" to "Sino-Soviet Bloc".
Section 222	Same suggestion as for Section 221.
Section 223	Suggest revision along the lines of Attachment 1.
Section 224	Suggest revision along the lines of Attachment 2.
Section 225	Suggest revision along the lines of Attachment 3.
Section 226	
226.1	Under review by CIA. BFC comments desired.
226.2	Under review by CIA. Comment particularly desired from State/ECD and ICA/MDAC.
226.3	Suggest revision along the lines of Attachment 4.
226.41	Present version appears satisfactory.
226.42	Present version appears satisfactory.

State Dept. declassification & release instructions on file

CIA DRAFT  
2 November 1955

REVISION OF FOREIGN SERVICE  
REPORTING INSTRUCTION ON  
ECONOMIC RELATIONS WITH THE BLOC

Attachment 1

Section 223 End-Users and Purposes

223.1 Principal Participating Agencies, Groups and Countries

Foreign Service reports on the economic relations of free-world countries with the Sino-Soviet Bloc are principally used by those departments which have operating and policy responsibilities in the field of economic defense, especially Commerce, Defense, State and Treasury. The Departments of Commerce and Treasury have primary responsibility for administering, respectively, United States export and financial control legislation. The Departments of Defense and State are concerned with economic defense because of their general responsibilities for national security and the conduct of foreign affairs. Within the State Department, ICA has special legislative responsibility for administering the Battle Act, including its punitive provisions and the coordination of all activities of the United States Government which concern security controls over exports from foreign countries. In addition to these operating and policy agencies, the Washington intelligence community is an important end-user of much of this material received from Foreign Service posts.

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(223.1 Cont'd)

United States economic defense policies and programs are coordinated through the Economic Defense Advisory Committee (EDAC). Under EDAC, which includes all agencies having significant responsibilities in the field of economic defense, a number of working groups and subcommittees coordinate the essential functions of the program under the general supervision of the EDAC Executive Committee.

International coordination in controlling trade with the Sino-Soviet Bloc is effected in Paris through the Consultative Group (CG) and its two subcommittees, the Coordinating Committee (COCOM) and the China Committee (CHINCOM). This organization consists of fifteen member countries: Belgium, Canada, Denmark, France, Greece, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Turkey, the United Kingdom, the United States, and West Germany. Other free-world countries cooperate in varying degrees, often by bilateral arrangement.

#### 223.2 Purposes

##### 223.21 General

Reporting on economic relations with the Bloc provides the sine qua non for meeting the responsibilities described above. Through informative Foreign Service reporting, the EDAC agencies are enabled to judge the suitability and weigh the cost of actual and proposed economic defense programs and measures. For this purpose, they require information and analysis as a basis for evaluating the total impact of such programs and measures on both the Bloc and the free world.

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(223.2 Cont'd)

223.22 Economic Defense Objectives and Programs

The basic objectives of United States foreign economic policy relating to economic defense are:

- a. To limit or retard the growth of economic war potential in the Sino-Soviet Bloc, and
- b. To increase or maintain the relative economic strength of the free world.

It is evident that the accomplishment of these objectives depends in large measure on various policies and programs within the free world, including United States foreign trade policy and the mutual security program.

Within the scope of economic defense legislation and administrative orders, these objectives are carried out through a number of interrelated programs, which are changed from time to time to meet new conditions. Existing economic defense programs may be described conceptually as follows:

- a. Commodity trade controls over exports and imports.
- b. Ancillary controls over transportation services (especially shipping), the ownership and use of assets, financial operations and technology.
- c. Consultations and mutual assistance among free-world countries aimed at preventing or reducing economic domination or penetration by the Sino-Soviet Bloc.

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(223.2 Cont'd)

Commodities subject to export control are contained in various lists, which are normally supplied to Foreign Service posts. Some of these lists are unilateral, and some are multilateral.

The multilateral lists include the International Atomic Energy List, the International Munitions List, International Lists I, II and III and the China Special List. All items on the lists just named are embargoed to Communist China and the Asiatic satellites, and the China Special List comprises all items in the other lists in addition to a number of "special" items. International List I is embargoed to the USSR and its European satellites, List II is under quantitative control and List III is merely under surveillance.

The unilateral lists of CG countries are generally more extensive, since the International Lists set their lowest common limit. Certain non-CG countries also maintain security export control lists, which tend to be of smaller scope.

The US Master Export Security List (MESL) is a reference book of export control lists. It includes the International Atomic Energy and Munitions Lists, International lists I, II and III and the list of items controlled unilaterally by the United States.

#### 223.23 Specific Uses

The individual economic defense programs require special types of reporting. For example, reporting which relates to the supply position, including trade, of the Bloc in various commodities

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(223.2 Cont'd)

is used in the determination of commodity controls and for negotiating changes in the multilateral lists with other governments. It is also essential in determining the net advantage of individual trade transactions and agreements proposed or effected between Bloc and free world countries. General and specific information on East-West trade transactions is used, in part, for the enforcement of existing trade controls, and for the modification of such controls whenever necessary to fill loopholes or meet changed conditions. Together with reporting on the trading tactics and other external economic operations of the Bloc, it is used for a variety of additional purposes. These include the determination and international negotiation of measures as necessary and appropriate to prevent or combat Bloc economic penetration and domination of free world countries. In a similar way, reporting on Bloc use of free world shipping, credits, and so on is needed for the determination and negotiation of ancillary controls, and for their enforcement and modification (as appropriate); and is also useful in the conduct of other economic defense programs.

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Attachment 2

Section 22L Coordination of Reporting Activities

A substantial body of information on economic relations between the Bloc and the CG countries, in particular, is contained in CG/COCOM/CHINCOM documents and in communications from the United States delegation to CG/COCOM/CHINCOM. In the interests of adequately informing the EDAC agencies and their overseas representatives, and to minimize unnecessary duplication, posts should scrutinize CG/COCOM/CHINCOM documents and communications from the United States delegation, in order to determine what areas and items of information should be reported or amplified, not only to Washington but to the United States delegation or to other posts. Reporting on East-West trade should also be closely coordinated with the other interested elements at the post, including the Department of Defense attaches.

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Attachment 3

Section 225 Nature of Soviet Bloc Reporting

Reporting on this subject presents unusual problems, for two principal reasons. First, economic relations with the Bloc are sui generis. Secondly, the facts are often hard to get, identify or interpret.

Foreign trade is a government monopoly in Bloc countries, and is motivated by political, military and psychological considerations in addition to the purely commercial factors which are normally controlling in the Western World. To a Western trading partner, the Bloc is apt to seem unreliable and discriminatory - refusing to permit ordinary business contacts such as factory inspections and commercial residence; insisting on arbitration by its own Commission; refusing to recognize patents and copyrights; and imposing special requirements of inspection, documentation or the use of Bloc facilities.

Above all, the Bloc maintains a long-standing policy of secrecy. Information on a great variety of Bloc economic activities is systematically withheld or misleadingly presented. Besides obstructing normal foreign trade, this economic secrecy makes reporting both tricky and difficult.

The reporting officer, therefore, should be especially alert and assiduous in digging out and verifying the facts, cautious

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about accepting statements at their face value, and critical in interpretation. Specific descriptions of information sources, and estimates of their reliability, should be given as a matter of course.

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Attachment 4

Section 226 Reporting Guides

226.3 Alert List Reporting

Post should keep Washington fully informed on significant developments in the field of economic relations with the Soviet Bloc. The following are characteristic of the subject material that should be included under Section D (Alert List) reporting:

a. Commodity Controls

- (1) New control regulations adopted, or the modification or dropping of existing controls.

b. Enforcement

- (1) Shipment of Battle Act Title I and II items from the country or in transit through the country to Soviet-bloc destinations or likely transshipment points.
- (2) Significant cases of diversions or clandestine shipments, direct or indirect, of strategic commodities, particularly those of United States origin.
- (3) Any apparently new trade routes established for shipments to Soviet-bloc countries originating in or passing through the country; names of shipping lines or airlines using transit points within the country.

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- (4) Security trade control cases which involve or call for administrative action.
- (5) Information regarding United States nationals, firms, or affiliates whether located in the United States or abroad (including visits of United States registered vessels and United States aircraft) participating in or facilitating the shipment or transshipment of strategic commodities to Bloc countries or likely transshipment points.
- (6) Bloc efforts to develop sources of supply for strategic list commodities.

c. Trade Pattern and Composition

- (1) Significant changes in composition or pattern of trade with any Bloc country or with Bloc as a whole.
- (2) Significant increases of essential or critical commodities imported from or exported to Bloc countries; Unusual Bloc purchases or sales.
- (3) Trade agreements with Bloc countries (see 226.41 -- Guide for Special Reporting.)
- (4) Follow-up information on fulfillment of trade agreements, placing of contracts, delivery, delays, and status of fulfillment of long-term commitments, under trade agreements.

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d. Other External Economic Activities of the Bloc

- (1) Soviet-bloc economic penetration, particularly in less developed areas -- through offers of equipment (especially on a gift or loan basis) or technical or financial assistance; follow-up on implementation of offers.
- (2) Soviet-bloc efforts to develop new sources of supply.
- (3) Purchasing by one or more Bloc countries of large proportion of specific commodity exports from individual free-world countries (especially of country's surplus commodities.)
- (4) Actual or attempted penetration or control of business firms, particularly those acting as agents for strategic products of United States manufacture and known to be sympathetic to the sale of strategic materials to the bloc, known to have engaged in such trade, or believed to have connections with Communist Party or Bloc agents.
- (5) Trade practices of Bloc countries (negotiating techniques, terms of trade, etc.), especially those of which the host country is critical.
- (6) Examples of difficulties of trading with Bloc countries, their unreliability, delay, or non-fulfillment of contracts, poor quality, complaints, etc., especially complaints voiced by free-world businessmen or government officials.

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e. Credit and Finance

- (1) Credits and loans granted to the Bloc and Bloc efforts to procure or extend such loans, including details of free-world government credits and guarantees of private loans.
- (2) Bloc deficits and credits outstanding, including status of clearing accounts under trade and payments agreements.

f. Trade Fairs and Delegations

- (1) Participation by Bloc countries in trade fairs or expositions (see 3FSM II 670).
- (2) Bloc trade and other economic and technical delegations and their activities and contacts within the free world.

g. Transport and Communications

- (1) Construction and sale of vessels to Bloc countries, including the reason for the sale (e.g., trade agreement commitments, special barter deal) and as much detail as possible concerning specifications (i.e., type of vessel, tonnage, speed, etc.). (see 3 FSM II 572.)
- (2) Repair of vessels for Bloc countries.
- (3) Chartering of vessels to Bloc countries, including available information on middlemen and Bloc agents.
- (4) Construction, sales, repair, and chartering of aircraft to Bloc countries.

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EDIC WORKING GROUP ON COLLECTION REQUIREMENTS

Revision of Draft Foreign Service Reporting Instruction on  
Economic Relations with the Sino-Soviet Bloc.

Section 226.2

- a) Suggest insertion of new third sentence, as follows:

"Detailed information already reported to Washington should not be repeated but should be included by reference to previous communications".

- b) Suggest addition by following new paragraph:

"In addition to these periodic reports, all posts are encouraged to submit analyses, on their own initiative, of major developments as they occur in economic relations with the Sino-Soviet Bloc".

- c) Suggest regrouping of outline, as follows:

"A. US Negotiations and Problems Confronting the Post"

"B. Attitudes of Host Country

1. Governmental attitude toward trade with the Bloc.
2. The government's view regarding the level of export controls, and the aims and extent of its participation in COCOM, CHINCOM or other such groups or arrangements.
3. The direction of business and press attitudes, and other pressures."

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- C. Same as B in Draft Outline.
  - D. Same as C in Draft Outline except for addition of item 1 as follows:
    - "1. The Bloc's (or a particular Bloc country's) apparent intentions or tactics regarding trade with the local country."
- The other items should be renumbered accordingly.